



BELMONT CONTRIBUTORY RETIREMENT SYSTEM

P.O. BOX 56 - 455 CONCORD AVENUE
TOWN HALL, BELMONT, MA 02478-0900
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THOMAS F. GIBSON
CHAIRMAN

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ELECTED MEMBER

CHITRA SUBRAMANIAN
EX-OFFICIO MEMBER

WALTER D. WELLMAN
VICE-CHAIRMAN

JAMES SLOMAN
APPOINTED MEMBER

ANGELA M. OLSZEWSKI
EXECUTIVE DIRECTOR

DATE: March 2, 2016
TO: Board of Selectmen
FROM: Thomas F. Gibson, Chair, Belmont Retirement Board
RE: 2016 Investment Return and Town Meeting Warrant Articles

On behalf of the Belmont Retirement Board, I am pleased to advise the Board of Selectmen of the Belmont Retirement System's 2016 investment return of 8.9% (gross) and 8.3% (net). The 2016 return exceeds the System's newly assumed rate of investment return of 7.5%, and places the System in the 13th percentile of its peers nationwide. The market value of assets as of December 31, 2016 was \$91,213,418. The Retirement Board will continue to advise the Board of Selectmen on the System's investment performance and other funding and public employee retirement issues.

The Board also respectfully requests that four local option articles be presented to Town Meeting for approval. The selected local options were part of the significant changes to the public retirement benefit structure which have been enacted by the Legislature. The Board had delayed presentment of these options for a significant period in order to properly evaluate their impact and suitability. Other available local options have been reviewed and are not being presented.

The local options which are being presented are taken from three sources: Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, an Act which substantively changed the retirement plan for public workers in Massachusetts by adjusting retirement benefits; Chapter 188 of the Acts of 2010, *An Act Relative To Municipal Relief*; and Chapter 139 of the Acts of 2012, the State Budget Act.

1. G.L. c. 32, § 101 Spousal Benefit

Section 65 of Chapter 139 of the Acts of 2012 provided an increase in the annual allowance payable to certain surviving spouses of accidental disability retirees to \$12,000. G.L. c. 32, § 101 provides a benefit to surviving spouses of disabled retirees who retired prior to 1997, and were precluded from selecting the Option C – member survivor option. The Belmont Retirement System has three surviving spouses who would be impacted by acceptance of this local option. Upon acceptance, the annual allowances of the three individuals will be increased to \$12,000. For the State Teachers' Retirement System and State Employees Retirement Systems, this increase was automatic as of July 1, 2012. Acceptance would have a *de minimus* impact on the System's unfunded liability.

The Belmont Retirement Board has voted to accept this section and to recommend acceptance by Town Meeting.

2. G.L. c. 32, § 12(2)(d) Member-Survivor Minimum Benefit

Sections 29 and 30 of Chapter 176 of the Acts of 2011 provides an increase to the monthly minimum allowance payable to a survivor of a member of the Belmont Retirement System who dies while actively employed, to \$500. The Belmont Retirement System currently has four survivors who would be impacted by acceptance of the law. Payment of the increased minimum monthly benefit to eligible recipients is prospective only. For the State Teachers'

Retirement System and State Employees Retirement Systems, this increase was automatic as of April 2, 2012. Acceptance would have a *de minimus* impact on the System's unfunded liability.

The Belmont Retirement Board has voted to accept this section and to recommend acceptance by Town Meeting.

3. G.L. c. 32, § 103(j) – Increase to the Cost of Living Adjustment (COLA) Base

Section 19 of Chapter 188 of the Acts of 2010 provided for increases to the existing COLA base for retired members and beneficiaries of the public retirement systems, in increments of \$1,000. The retirement COLA, which has been factored into the System's funding schedule since 1998, is up to 3% of the first \$12,000 of benefits, or a maximum of \$360 yearly. The Belmont Retirement Board has voted to increase the COLA base to \$14,000, which would increase the maximum to \$420 yearly, or a potential increase of \$60 per year. Approval of the granting of a COLA is at the Board's discretion.

If approved, the recently extended funding schedule will be revised to anticipate the possibility of a 3% COLA each year on the first \$14,000. The Retirement Board's actuary will provide an estimate of the impact of the COLA base increase to the funding schedule.

Notwithstanding, the Legislature has made changes to the definition of pensionable compensation and to the retirement formula for employees hired after April 2, 2012 which will help to offset any increase to the System's unfunded liability. Further, as the Board of Selectmen are aware, the retirement contributions of a long term Group 1 employee who entered the retirement system after July 1, 1996 will fund most, if not all, of his or her retirement benefit, assuming investment targets are met.

The Belmont Retirement Board has voted to accept this section so as to increase the COLA base to \$14,000 and to recommend acceptance by Town Meeting.

4. G.L. c. 32, § 20(6) – Board Stipend

Section 34 of Chapter 176 of the Acts of 2011 provides an increase to the stipend available to members of the Belmont Retirement Board to not more than \$4,500 per year. By taking favorable action on this Article, the Town will accept a local option which increases the stipend available to be paid to members of the Belmont Retirement Board from the current stipend amount of \$3,000, previously accepted by Town Meeting in 1997, to \$4,500 per year.

By including this provision in Chapter 176 of the Acts of 2011, *An Act Providing for Pension Reform and Benefit Modernization*, the Legislature recognized the significant enhancements it was mandating to the governance and operations of the Commonwealth's retirement boards. The Act requires that all retirement board members follow enhanced procurement requirements and apply increased fiduciary oversight of the retirement system's investments. Retirement board members are required to complete mandatory education and training, and must file annual statements of financial interests and acknowledgements of compliance with the conflict of interest and public employee retirement laws. Penalties for non-compliance are substantial, and non-compliance may be considered a breach of fiduciary obligations for which a Board member would be personally liable.

In recognition of the increased responsibilities and accountability of retirement board members, the Legislature provided a local option amendment to G.L. c. 32 § 20(6) which increases the stipend to be paid to board members in an amount "not less than \$3,000 and not more than \$4,500 per year." As are all expenses of the System's operations, payment of the stipend is made from "funds under the control of the board," and is funded from the System's return on investments. Action by the Retirement Board is not required in the acceptance process.

While further specific financial details will be forthcoming, it is respectfully requested that the above four items be included in the warrant for Town Meeting. Thank you for your courtesy in this regard.



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Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Actuary
kriley@segalco.com

March 17, 2017

Belmont Contributory Retirement System
455 Concord Avenue
Belmont, MA 02478-0900

Subject: Costs of Increasing the Option D Minimum Survivor Benefit, the Section 101 Death Benefit and the COLA Base

Dear Board Members:

As requested, we have estimated the impact of increasing the Option D Minimum Survivor Benefit, the Section 101 Death Benefit and the COLA Base. For this study, we have assumed the fiscal 2018 appropriation has already been budgeted. These changes will first be reflected in the fiscal 2019 appropriation.

The funding schedule included in the January 1, 2016 Actuarial Valuation and Review dated January 6, 2017 fully funds the actuarial accrued liability of the Belmont Contributory Retirement System by fiscal 2029 with total payments increasing 6.97% for fiscal 2018 and fiscal 2019 and 4.45% per year thereafter. We have incorporated the additional cost of each change into the funding schedule by adding an amount to the fiscal 2019 appropriation, with future appropriations increasing by 4.45% per year thereafter.

The impact on the fiscal 2019 appropriation of the required increases is greater than the impact on the fiscal 2016 appropriation shown in our letter dated March 12, 2015 due to the changes in assumptions made in the 2016 valuation, the fact that there is one less year to fund the increases and the change in the funding schedule to lower the annual rate of increase in the appropriation which increases the initial payment.

12D Option D Minimum Survivor Benefit Increase

We have estimated the cost of increasing the \$250 per month minimum allowance contained in M.G.L. Chapter 32, Section 12 to \$500 per month in accordance with Section 30 of Chapter 176. This change would apply to all participants whose beneficiaries are currently receiving a minimum survivor benefit that is less than \$500 per month and to future beneficiaries. Our estimates are based on data supplied by the Retirement System for four eligible beneficiaries currently receiving Section 12 benefits of less than \$500 per month. The total additional monthly benefit is \$508.

We have estimated that increasing the Option D Minimum Survivor Benefit to \$500 increases the fiscal 2019 appropriation by \$13,805.

Section 101 Death Benefit Increase

We have estimated the cost of increasing the Section 101 death benefits from \$6,000 to \$9,000 and to \$12,000. Our estimates are based on data supplied by the Retirement System for three beneficiaries receiving Section 101 benefits. We have estimated that increasing the Section 101 Death Benefit to \$9,000 increases the fiscal 2019 appropriation by \$8,850 and increasing the Section 101 Death Benefit to \$12,000 increases the fiscal 2019 appropriation by \$21,080.

COLA Base Increase

We have estimated the cost of increasing the Cost of Living Adjustment (COLA) base effective July 1, 2017 from \$12,000 to \$14,000. We have estimated that increasing the COLA base to \$14,000 increases the fiscal 2019 appropriation by \$235,150.

Additional details on the change in the unfunded liability, normal cost and fiscal 2019 appropriation are shown in the attached table.

Please refer to our January 1, 2016 Actuarial Valuation and Review dated January 6, 2017 for the data, assumptions and plan of benefits underlying these calculations.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Retirement System.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law.

The actuarial calculations were directed under my supervision. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in my opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Plan.

Please let us know if you have any questions or need any additional information.

Sincerely,



Kathleen A. Riley, FSA, MAAA, EA

KCR/an

Enclosure

Belmont Contributory Retirement System

Impact of Benefit Improvements

	Current	Increase in Minimum Survivor Benefit	Section 101 Death Benefit		COLA Base Increase as of July 1, 2017 \$14,000
			\$9,000	\$12,000	
July 1, 2017 Unfunded Liability	\$76,129,597	\$76,213,827	\$76,206,812	\$76,313,492	\$77,871,685
Additional Cost		84,230	77,215	183,895	1,742,088
Percent Increase		0.11%	0.10%	0.24%	2.29%
July 1, 2018 Employer Normal Cost	\$1,817,543	\$1,821,934	\$1,817,543	\$1,817,543	\$1,855,031
Additional Cost		4,391	0	0	37,488
Percent Increase		0.24%	0.00%	0.00%	2.06%
Fiscal 2019 Appropriation	\$9,643,193	\$9,656,998	\$9,652,043	\$9,664,273	\$9,878,343
Additional Cost		13,805	8,850	21,080	235,150
Percent Increase		0.14%	0.09%	0.22%	2.44%



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Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Actuary
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March 30, 2017

Belmont Contributory Retirement System
455 Concord Avenue
Belmont, MA 02478-0900

Subject: Costs of Increasing the COLA Base - Revised

Dear Board Members:

This letter revises our letter dated March 17, 2017 and provides the impact on the fiscal 2019 appropriation of increasing the COLA base to \$14,000 effective date to July 1, 2018, rather than one year earlier shown in the previous letter.

The funding schedule included in the January 1, 2016 Actuarial Valuation and Review dated January 6, 2017 fully funds the actuarial accrued liability of the Belmont Contributory Retirement System by fiscal 2029 with total payments increasing 6.97% for fiscal 2018 and fiscal 2019 and 4.45% per year thereafter. We have incorporated the additional cost of increasing the COLA base into the funding schedule by adding an amount to the fiscal 2019 appropriation, with future appropriations increasing by 4.45% per year thereafter.

COLA Base Increase

We have estimated the cost of increasing the Cost of Living Adjustment (COLA) base effective July 1, 2018 from \$12,000 to \$14,000. We have estimated that increasing the COLA base to \$14,000 increases the July 1, 2018 Unfunded Liability by \$1,722,000, the July 1, 2018 employer normal cost by \$37,000 and the fiscal 2019 appropriation by \$219,100.

Please refer to our January 1, 2016 Actuarial Valuation and Review dated January 6, 2017 for the data, assumptions and plan of benefits underlying these calculations.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Retirement System.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law.

The actuarial calculations were directed under my supervision. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of my knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in my opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Plan.

Please let us know if you have any questions or need any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kathleen A. Riley', written over a horizontal line.

Kathleen A. Riley, FSA, MAAA, EA

KCR/an

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RETIREMENT BOARD WARRANT ARTICLES

G.L. c. 32, s. 12(2)(d) Member-Survivor Minimum Benefit

- Benefit payable to spouses of members who died in service
- Acceptance will increase monthly benefit from \$250 to \$500
- 4 spouses currently affected
- Estimated additional cost to FY 2019 appropriation = \$13,805

G.L. c. 32, s. 101 Spousal Benefit

- Prior to 1997, accidental disability retirees unable to select option c, the joint & survivor benefit
- Benefit paid to spouses of retirees who die from a cause not related to the disability
- Acceptance will increase benefit to \$12,000 annually
- 3 survivors currently collecting this benefit; 20 living disability retirees in this group
- Estimated additional cost to FY2019 appropriation = \$21,000

COLA Base

- COLA base has been \$12,000 since 1998 (Chapter 17 of the Acts of 1997)
- Current maximum COLA is 3% of \$12,000 = \$360/month or \$4,320/year
- Increasing base to \$14,000 = max COLA of \$420/month or \$5,040/year
- Retiree health insurance rates projected to increase by 9% for FY 2018
- Estimated additional cost to FY 2019 appropriation = \$219,100

Retirement Board Stipend

- Currently \$3000/year; local option approved by Town Meeting in 1997
- Request to increase to \$4500/year
- Stipend paid from investment income
- Fiduciary obligation to manage complex investment portfolio valued at \$91,213,418 as of 12/31/2016
- Must file annual statement of financial interests: board members must disclose information regarding themselves and immediate family members
- Education credits: must complete minimum of 18 hours of training during each three-year term

COLA Base Above \$12,000**Fiscal Year Eff. Date**

1. Adams Retirement Board	\$14,000	2013
2. Amesbury Retirement Board		
3. Andover Retirement Board		
4. Arlington Retirement Board	\$15,000	2014
5. Attleboro Retirement Board		
6. Barnstable County Retirement Board	\$16,000	2016
7. Belmont Retirement Board		
8. Berkshire County Retirement Board	\$14,000	2012
9. Beverly Retirement Board		
10. Blue Hills Retirement Board	\$16,000	2012
11. Boston Retirement Board	\$13,000	2013
12. Braintree Retirement Board		
13. Bristol County Retirement Board	\$18,000	2016
14. Brockton Retirement Board		
15. Brookline Retirement Board	\$13,000	2013
16. Cambridge Retirement Board	\$14,000	2013
17. Chelsea Retirement Board		
18. Chicopee Retirement Board	\$15,000	2014
19. Clinton Retirement Board	\$14,000	2013
20. Concord Retirement Board		
21. Danvers Retirement Board	\$13,000	2017
22. Dedham Retirement Board	\$15,000	2016
23. Dukes County Retirement System	\$14,000	2014
24. Easthampton Retirement Board	\$14,000	2016
25. Essex Regional Retirement Board	\$13,000	2013
26. Everett Retirement Board	\$14,000	2013
27. Fairhaven Retirement Board	\$13,000	2017
28. Fall River Retirement Board		
29. Falmouth Retirement Board		
30. Fitchburg Retirement Board		
31. Framingham Retirement Board		
32. Franklin Regional Retirement Board	\$17,000	2017
33. Gardner Retirement Board s	\$13,000	2013
34. Gloucester Retirement Board	\$14,000	2012
35. Greater Lawrence Retirement Board		
36. Greenfield Retirement Board	\$14,000	2012
37. Hampden County Retirement Board	\$18,000	2014
38. Hampshire County Retirement Board	\$13,000	2014

82. Saugus Retirement Board		
83. Shrewsbury Retirement Board		
84. Somerville Retirement Board	\$13,000	2017
85. Southbridge Retirement Board		
86. Springfield Retirement Board	\$13,000	2014
87. STATE	\$13,000	2011
88. STATE TEACHERS	\$13,000	2011
89. Stoneham Retirement Board	\$13,000	2012
90. Swampscott Retirement Board	\$13,000	2012
91. Taunton Retirement Board	\$15,000	2016
92. Wakefield Retirement Board		
93. Waltham Retirement Board	\$14,000	2012
94. Watertown Retirement Board	\$13,000	2016
95. Webster Retirement Board	\$16,000	2013
96. Wellesley Retirement Board	\$15,000	2014
97. West Springfield Retirement Board	\$13,000	2014
98. Westfield Retirement Board	\$13,000	2014
99. Weymouth Retirement Board		
100. Winchester Retirement Board		
101. Winthrop Retirement Board		
102. Woburn Retirement Board		
103. Worcester Retirement Board	\$13,000	2012
104. Worcester Regional Retirement Board	\$16,000	2016

Source: PERAC: <http://www.mass.gov/perac/board-info/boardopt-17.html>